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are destined to ripen gradually into enjoyable commodities, serves to enable the population to subsist in the interval between the beginning of capitalistic production and the attainment of the ripe product. And the size of this fund for subsistence, of which fixed capital is a part no less than is circulating, determines what paths in the way of production, how long and how effective, can be entered on, and therefore determines the size of that marginal product which is the object of the final division between capitalists and laborers.

E. BOEHM-BAWERK.

DOUBLE TAXATION OF MORTGAGED REAL ESTATE.

From 1870 to 1881, an agitation, finally successful in the latter year, was carried on to induce the Massachusetts legislature to repeal the tax on mortgages. From 1881 to 1888, repeated efforts were made to secure the re-enactment of that tax, happily without success; and the legislature of 1889 was the object of a most determined, though again unsuccessful, attack in the same direction. As there is no reason to suppose that the advocates of double taxation will accept their defeat as final, it may be of service to put before the public certain facts and statistics collected by the writer, and used in his argument before the Committee on Taxation last spring. The object of this paper is not to repeat the familiar and conclusive arguments on principle against double taxation, nor to refute the assertion that to tax the mortgage debt as well as the mortgaged estate in its entirety is not double taxation; but simply to answer the argument from statistics which is annually put forth by the advocates of the tax on mortgages.

This argument is as follows: The rate of mortgage interest in Massachusetts has not declined since 1881 more than the rate of interest on personal loans unaffected by the legislation of that year; the decline in interest on personal loans has been brought about by general causes, which operate alike on all classes of securities; hence mortgage interest would have fallen in any case, the borrower has not profited by the law of 1881, and the State has lost the revenue formerly collected from this tax. The argument is supported by tables like the following:—

	INTEREST RATES.				Decline.
	1880.	1882.	1883.	1886.	
New York Central 6s of 1887 . .	.04.620	.03.750	.03.920		
Boston and Albany 7s of 1892 . .	.04.600	.03.790	.04.000	.03.350	.01.250
United States 4s 1907 . . . . .	.03.630	.02.870	.02.870	.02.440	.01.190
Massachusetts 5s of 1894 . . . . .	.03.940	.03.315	.03.250	.02.710	.01.230
Maine 6s of 1889 . . . . .	.04.190	.03.440	.03.250	.02.620	.01.570
New Hampshire 6s . . . . .	.04.460	.03.830	.03.500	.03.370	.01.080
Massachusetts mortgages . . . .	.06.122	.05.632	.05.605	.05.170	.00.952

The last column indicates the decline in the interest received by the holders of six specified securities between 1880 and 1886, and compares it with what is assumed to have been the average drop in mortgage interest during the same period. These figures, brought down to 1886,—but not, it should be noted, to 1889,—have been frequently flourished before the Committee on Taxation as proving conclusively that the removal of the tax on mortgages has benefited nobody but the grasping money-lender.

A better illustration of the fallacious use of statistics could hardly be invented than this same table. Suppose, for example, that, instead of going back to 1880,—which was a year of unusual financial conditions,—we take the market value of the same securities just before and just after the passage of the act of 1881 (May 13): we shall find the rate of interest to their purchasers to have been as follows:—

	1881. (March and April.)	1882.	Decline.	Advances.
N. Y. Central 6s, 1887,	3.875	3.750	.125	
B. & A. 7s., 1892,	3.875	3.790	.085	
U. S. 4s, 1907,	3.127	2.870	.257	
Mass. 5s, 1894,	3.375	3.315	.060	
Maine 6s, 1889,	3.620	3.440	.180	
N. H. 6s,	3.750	3.830		.080
Suffolk Mortgages,	5.826	5.349	.477	

This shows for the bonds an average decline during the period immediately succeeding the passage of the act of almost exactly one-tenth of one per cent.; while the average decline in mortgage interest in Suffolk County, as shown by the mortgages recorded at the Registry of Deeds, was almost five times as great, or, more exactly, .477 of one per cent.

Again, instead of selecting certain special bonds, let us take a lot of representative, not specially selected, bonds, of the

class that come into competition with mortgages. The following table shows, for every year since 1879, the rates of interest realized by the holders of fifteen first-class railroad bonds. These securities have not been selected with a view to prove or disprove anything, but are the bonds owned by the three largest savings-banks in Boston,—the Suffolk, the Boston Five Cents, and the Provident Institution. *All* the railroad bonds owned by these three banks, according to the Bank Commissioners' Report for 1888, have been taken except a few for which no quotations could be found in *Martin's History of the Boston Stock Market*; and, in each case, the highest price for the year as given in that work is taken:—

	1880.	1881.*	1882.	1883.	1884.	1885.	1886.	1887.	1888.
Boston & Albany 6s, 1895,	4 $\frac{3}{8}$	4 $\frac{1}{8}$	4	3 $\frac{7}{8}$	3 $\frac{1}{2}$	3 $\frac{3}{8}$	3 $\frac{3}{8}$	3 $\frac{5}{8}$	4
“ “ 7s, 1892,	4 $\frac{1}{8}$	3 $\frac{7}{8}$	3 $\frac{3}{4}$	4	3 $\frac{5}{8}$	3 $\frac{3}{8}$	3 $\frac{1}{2}$	3 $\frac{1}{2}$	4 $\frac{1}{8}$
Boston & Lowell 4s, 1905,						3 $\frac{3}{8}$	3 $\frac{5}{8}$	3 $\frac{3}{4}$	4
“ “ 4 $\frac{1}{2}$ s, 1903,				4 $\frac{3}{8}$	4 $\frac{3}{8}$	3 $\frac{3}{8}$	3 $\frac{5}{8}$	3 $\frac{5}{8}$	4
Boston & Maine 7s, 1894,	4 $\frac{1}{2}$	4 $\frac{1}{4}$	4 $\frac{1}{8}$	4 $\frac{1}{4}$	4	3 $\frac{3}{8}$	3 $\frac{3}{4}$	3 $\frac{5}{8}$	4
Boston & Prov. 7s, 1893,	4 $\frac{1}{4}$	4	4	4 $\frac{1}{8}$	3 $\frac{1}{2}$	3 $\frac{5}{8}$	3 $\frac{1}{2}$	3 $\frac{1}{4}$	4
Boston, Clinton, Fitchburg & New Bedford 5s, 1910,	4 $\frac{7}{8}$	4 $\frac{5}{8}$	4 $\frac{3}{4}$	4 $\frac{3}{8}$	4 $\frac{1}{2}$	4	4	4	4
Boston, Clinton & Fitchburg 7s, 1890,	5 $\frac{5}{8}$	5 $\frac{1}{2}$	4 $\frac{3}{4}$	4 $\frac{1}{2}$	4 $\frac{1}{2}$	4 $\frac{1}{2}$	3 $\frac{3}{4}$	3 $\frac{5}{8}$	4 $\frac{1}{2}$
Eastern 6s, 1906,	5 $\frac{5}{8}$	5 $\frac{1}{2}$	5 $\frac{1}{4}$	5 $\frac{1}{2}$	5	4 $\frac{3}{8}$	3 $\frac{3}{4}$	3 $\frac{3}{4}$	4
Fitchburg 5s, 1899,	4 $\frac{3}{4}$	4 $\frac{3}{8}$	4 $\frac{1}{4}$	4 $\frac{1}{2}$	4 $\frac{1}{2}$	4	3 $\frac{3}{8}$	3 $\frac{3}{4}$	4 $\frac{3}{8}$
“ “ 7s, 1894,	4 $\frac{1}{2}$	4 $\frac{1}{8}$	4 $\frac{1}{8}$	4 $\frac{1}{4}$	4	3 $\frac{3}{8}$	3 $\frac{5}{8}$	3 $\frac{3}{4}$	4 $\frac{1}{2}$
Old Colony 4s, 1938,									4
“ “ 4 $\frac{1}{2}$ s, 1904,					4	3 $\frac{3}{8}$	3 $\frac{5}{8}$	3 $\frac{5}{8}$	4
“ “ 6s, 1895,	4 $\frac{1}{2}$	4 $\frac{1}{4}$	4 $\frac{1}{4}$	4	3 $\frac{1}{2}$	3 $\frac{3}{8}$	3 $\frac{1}{2}$	3	3 $\frac{5}{8}$
“ “ 7s, 1894,	4 $\frac{1}{2}$	4 $\frac{1}{8}$	4 $\frac{1}{8}$	4 $\frac{1}{8}$	4	3 $\frac{3}{8}$	3 $\frac{5}{8}$	3 $\frac{5}{8}$	4
Average	4.62	4.43	4.30	4.25	3.77	3.54	3.54	3.60	4.09

The average rate of interest to the purchaser of these representative securities dropped between 1881 and 1882 only .03 of one per cent., and between 1881 and 1888 only .24 of one per cent. If we take the prices for the last quarter year before the tax on mortgages was abolished,—that is, for January—April, 1881,—we find that the average rate of interest had fallen by 1882 only .13 and by 1888 .34 of one per cent.

Let us now consider the case of other kinds of personal loans, of the class that compete with mortgages. The follow-

* First three months of the year only. The average for the entire year was 4.33.

ing table, prepared from the books of the leading firm of note-brokers in Boston, shows the rate of interest on the best kind of corporation paper, and on loans secured by collateral, during the months (selected at random) of January and July, from 1880 to 1889:—

	CORPORATION PAPER.		COLLATERAL LOANS.
	12 Months' Loans.	6 Months' Loans.	12 Months' Loans.
July, 1880	4 per cent.	3 $\frac{3}{4}$ per cent.	4 $\frac{3}{4}$ per cent.
January, 1881	4 " "	3 $\frac{3}{4}$ " "	4 $\frac{3}{4}$ " "
July, 1881	3 $\frac{3}{4}$ " "	3 $\frac{1}{4}$ " "	5 " "
January, 1882	4 $\frac{1}{2}$ " "	4 $\frac{1}{2}$ " "	4 $\frac{3}{4}$ " "
July, 1882	4 $\frac{1}{4}$ " "	4 $\frac{1}{4}$ " "	5 " "
January, 1883	4 $\frac{1}{2}$ " "	5 " "	4 $\frac{1}{2}$ " "
July, 1883	4 $\frac{1}{2}$ " "	4 $\frac{3}{4}$ " "	4 $\frac{1}{2}$ " "
January, 1884	4 $\frac{1}{2}$ " "	4 " "	4 $\frac{1}{2}$ " "
July, 1884	5 " "	5 " "	5 $\frac{1}{2}$ " "
January, 1885	4 $\frac{1}{2}$ " "	4 " "	4 $\frac{1}{2}$ " "
July, 1885	3 $\frac{3}{4}$ " "	3 $\frac{1}{2}$ " "	3 $\frac{3}{4}$ " "
January, 1886	3 $\frac{3}{4}$ " "	3 $\frac{3}{4}$ " "	4 $\frac{1}{4}$ " "
July, 1886	3 $\frac{3}{4}$ " "	3 $\frac{3}{4}$ " "	3 $\frac{3}{4}$ " "
January, 1887	4 $\frac{1}{2}$ " "	4 $\frac{1}{2}$ " "	4 $\frac{5}{8}$ " "
July, 1887	4 $\frac{1}{2}$ " "	4 " "	5 " "
January, 1888	4 $\frac{3}{4}$ " "	4 " "	5 $\frac{1}{2}$ " "
July, 1888	4 $\frac{1}{4}$ " "	4 $\frac{1}{4}$ " "	4 " "
January, 1889	4 $\frac{1}{2}$ " "	4 $\frac{1}{2}$ " "	4 $\frac{3}{4}$ " "

The rate of interest on the best commercial and factory paper from January, 1879, to December, 1888, is stated in the next table. The figures are compiled from Martin's *History of the Boston Stock Market*. The first column for each year states the rate on trade paper, the second column the rate on factory paper:—

	1879.	1880.	1881.	1882.
January . . .	3	4 $\frac{1}{2}$ to 5 $\frac{1}{2}$ 4	4 to 5 3 to 3 $\frac{3}{4}$	5 to 6 4 to 4 $\frac{1}{2}$
February . . .	4 $\frac{1}{2}$	4	6 to 7 4 $\frac{1}{2}$ to 5	5 to 6 4 to 4 $\frac{1}{2}$
March . . .		5 to 6 4 to 4 $\frac{1}{2}$	5 to 6 5	5 to 6 4 $\frac{1}{2}$
April . . .		5 4 to 4 $\frac{1}{2}$	3 $\frac{1}{2}$ to 4	4 $\frac{1}{2}$ to 5
May . . .		4 to 5	3 $\frac{1}{2}$ to 4 3	4 $\frac{1}{2}$ to 5 4
June . . .	3 to 4	3 $\frac{1}{2}$	4 to 4 $\frac{1}{2}$	4 to 5
July . . .	3 to 3 $\frac{1}{2}$ scarce	4	4 to 4 $\frac{1}{2}$ 3 $\frac{1}{2}$ to 3 $\frac{3}{4}$	5 to 6
August . . .	5	*	5 to 6 4 $\frac{1}{2}$	5 to 6 $\frac{1}{2}$
September . . .	5 to 6 4	3 $\frac{1}{2}$ to 4	5 $\frac{1}{2}$ to 6 4 $\frac{1}{2}$ to 5	6
October . . .	4 to 5	4 to 4 $\frac{1}{2}$ 3 to 3 $\frac{1}{2}$	5 to 6 4 to 4 $\frac{1}{2}$	5 to 6 $\frac{1}{2}$
November . . .	6	4 $\frac{1}{2}$ to 5 $\frac{1}{2}$	5 to 6 5	5 to 6 $\frac{1}{2}$ 5
December . . .	5	5	5 to 6 4 $\frac{1}{2}$ to 5	5 $\frac{1}{2}$ to 6 $\frac{1}{2}$

* Slightly higher.

	1883.	1884.	1885.
January	5½ to 7	4 to 5	4 to 5
February	6	4½ to 5½	4½ to 5
March	5 to 6	4 to 4½	4 to 4½
April	5½ to 6½	5 to 5½	4½ to 5½
May	5 to 6	4 to 5½	4 to 4½
June	5 to 6	5 to 5½	4 to 5
July	5 to 6	6	4½ to 5
August	5 to 6	5 to 6	4 to 5
September	5½ to 6	5½ to 6	4 to 5
October	5½ to 6	4 to 5½	4 to 5
November	5 to 6	3½ to 5	4 to 5
December	4 to 5	4 to 4½	4½ to 5½

	1886.	1887.	1888.
January	4½ to 5½	5 to 6	5½ to 6½
February	4½ to 5	5 to 5½	5½ to 6½
March	4 to 4½	5½ to 6½	5½ to 6½
April	4½ to 5	4½ to 5½	4½ to 5½
May	4 to 4½	4 to 5	4½ to 5
June	4 to 4½	6	4 to 5
July	5 to 6	6 to 6½	4 to 5
August	5½ to 6½	6 to 7	5 to 6
September	5½ to 6	6	5 to 5½
October	5½ to 6	6	5 to 6
November	5½ to 6½	6	5 to 5½
December	6 and higher	6 to 6½	5 to 6

That is to say, there has been *no decline at all* since 1880 in the rate of interest on corporation paper and collateral loans, both taxable investments which compete with mortgage loans more sharply than bonds do;* and the same can be said of bank discounts.

It is clear that the rate of interest on those kinds of personal loans which compete with mortgage loans, instead of declining at the same rate as mortgage interest, has, so far as trade paper, collateral loans, and corporation paper are concerned, not declined at all; and so far as railroad bonds go, the average decline in seven years since the repeal of the tax on mortgages has been only one-third of one per cent.

On the other hand, the decline in mortgage interest is admitted in the table first quoted to have been over nine-tenths

*As is shown by the Reports of the Commissioners of Savings Banks. For instance, the Report for 1888 shows a total investment by Massachusetts savings-banks in "loans on personal security," notes, and collateral loans, of \$86,359,770.03, while the total amount invested in bonds and public funds was \$66,450,856.58.

of one per cent. down to 1886; and rates are lower now than then. In Suffolk County, where the operation of the law of 1881 was naturally quickest, there has been a decline of fully one per cent.; and it took place at once. This is shown when we examine, not the average rate on all recorded mortgages,—for that would include building loans, second mortgages, loans with interest varying from year to year,—but the rate on the best mortgage loans only. The best mortgage loans—that is, those at the lowest rate—are standard investments, subject to less fluctuation than any other class of securities. The following table, covering all mortgages recorded in the Registry at Boston at five per cent. or less during the months specified, seems to show conclusively that on the passage of the act of 1881 the rate of interest on first-class mortgages in Boston dropped at once fully one per cent.:—

SUFFOLK MORTGAGES.

	5%	4½%	4½	4¼	4
July, 1880,	\$358,981	None	None	None	None
January, 1881,	250,700	“	“	“	“
February, “	295,100	“	\$35,000	“	“
March, “	315,404	“	None	“	\$8,000
April, “	191,354	“	30,000	“	5,550
May, “	510,736	“	None	“	None
June, “	536,525	\$7,000	247,750	“	85,000
July, “	380,740	None	22,000	“	60,000
January, 1882,	570,598	“	302,500	“	23,000
July, “	509,250	23,000	112,300	“	129,000
January, 1883,	411,789	33,000	85,900	“	128,050
July, 1888,	Not counted	15,000	45,000	30,000	326,000
January, 1889,	“ “	None	249,350	None	313,975

If we could distinguish the building loans and the various other kinds of mortgages, we should undoubtedly obtain similar results for them,—an immediate and permanent drop of at least one per cent.

So much for statistics. Public opinion is in accord with these results. The unanimous testimony of brokers, money-borrowers, trustees, and other persons familiar with the negotiation of mortgages, is that in Boston, at least, the rate of interest dropped at once by fully one per cent. The rate on one class of loans, on vacant land in Boston, dropped from six or six and a half per cent. to five; on another class, on

improved real estate, from five or five and a half to four or four and a half per cent.; and on building loans, from six, seven, or eight down to five or six per cent.

The effect of this reduction was not only to relieve borrowers as a class from the burden of unjust and double taxes, but to give a great impetus to building operations. Three-quarters or more of all the buildings erected in Boston are built on mortgage: probably a majority of them are erected by builders for sale; and, whether built for sale or for investment, the rate of interest on the money which must be borrowed to complete them, and the taxes, are important items.

The increase in building operations in Boston consequent upon the passage of the act of 1881 is shown in the following table, prepared from the official figures of the Inspector of Buildings:—

<i>Year.</i>	<i>Brick Buildings.</i>	<i>Wooden Buildings.</i>	<i>Alterations.</i>	<i>Total.</i>
1880	\$1,490,100	\$474,752	\$1,327,230	\$3,292,082
1881	1,521,852	686,643	935,765	3,144,260
1882	4,932,640	2,379,278	1,607,051	8,918,969
1883	5,864,577	1,670,806	2,386,226	9,921,609
1884	5,400,775	3,078,145	1,983,287	10,462,207
1885	6,218,800	4,552,538	2,560,212	13,331,550
1886	8,818,100	3,992,792	3,064,813	15,875,705
1887	6,108,825	4,153,181	2,365,096	12,627,102
1888	5,276,350	4,470,510	2,596,373	12,343,233
1889	9,078,750	4,919,342	3,122,685	17,120,777

The average value of new buildings and alterations for 1880 and 1881 was \$3,218,171; the excess over this average for the year 1882 was \$5,700,798; for 1883, \$6,703,438; and for 1884, \$7,244,036. In the three years succeeding the abolition of the tax on mortgages, the amount of building operations exceeded by \$19,648,272 what they would have been if the average of 1880–81 had been maintained. In other words, the city of Boston, which lost by the act of 1881 the taxes on \$20,000,000 of mortgages, made it up within three years by the increase of building activity, induced largely by the passage of that act.*

NATHAN MATTHEWS, JR.

*The total value of real estate improvements in the period from 1882 to 1889 was \$77,855,884 more than if the average for the two years preceding the passage of the law had been maintained. The loss of personal property to the assessors' office due to that law was, at most, \$20,000,000.